

R.I. municipal-run pensions are at risk, auditor warns

Many of the plans covering police, fire and other city and town workers are underfunded, and some are in danger of running out of money, says state Auditor General Ernest A. Almonte.

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Pension plans for municipal employees that are run by some cities and towns are in risky — even perilous — condition, and the state's auditor general recommends doing away with them, in a report released yesterday.

Of 37 pension plans run by municipalities, 21 are at risk because they do not have enough money to begin with, because the city or town is not putting enough in each year, or both, according to the report by Auditor

General Ernest A. Almonte.

"Locally administered plans can be problematic and their continued existence should be strongly reconsidered," Almonte's report says.

The 37 plans are run by 25 cities and towns. Several of those communities have more than one plan, such as Coventry, which has separate plans for police employees, school employees and municipal employees. Additionally, all teachers are part of the state retirement system,

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into which each city and town must pay a contribution. Municipalities that do not have their own plans participate in the state-run Municipal Employees' Retirement System.

Almonte suggested that communities with their own pension systems consider joining the state-run plan. Even well-run local plans would benefit, Almonte said, by pooling their resources. That would reduce administrative costs of running the plans and open up investment opportunities that are available only to plans with larger pools of money.

The state plan also has the advantage that, under state law, communities are required to contribute enough money each year to cover the costs of the plan. If they do not, the amount that they are short can be deducted from their state aid. While this may tighten already stretched municipal budgets, it avoids huge expenses down the road that can result from pension plans being underfunded.

Almonte grouped the at-risk pension plans into three risk categories. Category 1 is for plans that have significantly less money than they should, and the city or town is contributing significantly less than it should each year. Category 2 is for plans that have significantly less money than they should, but the city or town is contributing about what it should each year, which will allow it to eventually catch up. Category 3 is for plans that have about as much money as they should, but the city or town is not putting in enough each year and its contributions are decreasing.

Five communities have one or more plans that fall into Category 1: Central Falls, Coventry, Narragansett, Pawtucket and West Warwick.

All three local plans in Coventry were rated in Category 1.

The Coventry police pension plan has only 8 percent of the money it should have, and the town is contributing only 28 percent of what it should each year,

Almonte's report says. That plan is more than \$45 million short of what it should have. Almonte cites another study of the plan that predicted: "Without a substantial increase in employer contributions, your plan is in danger of depleting assets. If this happens, benefits payments to current retirees will stop."

The same study predicted Coventry's municipal employee plan — which has 28 percent of the money it should have and contributions are 13 percent of what they should be — will be out of money in 2013. It is more than \$11 million short.

While Coventry is in bad shape in percentage terms, the cities of Cranston and Providence have the largest shortfalls in total dollars, even though their plans are rated Category 2 in risk.

Providence is \$659 million short, but contributed 96 percent of what it should in 2006, the report says. The Providence plan covers all city employees, except teachers.

Cranston is more than \$217 million short, but contributed 98 percent of what it should have. The plan covers Police and Fire Department employees.

Besides merging with the state-run municipal plan, Almonte suggests other steps that can be taken to shore up the plans. They include:

■ Switching to a "defined contribution" plan, in which communities agree to put a set amount into a retirement investment account for each employee, rather than guarantee employees a certain level of retirement income.

■ Having the legislature beef up a state law that requires communities to contribute as much as they should each year, such as the provision in the state-run plan for reducing state aid if they do not.

■ Setting criteria that allow the state to step in if a plan is severely at risk.

Almonte's report can be found online at http://www.oag.state.ri.us/reports/Local_Pensions0707.pdf

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Municipal pension plans at-risk

Risk Category 1

Not enough money; contributions too low
Central Falls Police and Fire (after 7/1/72)

Coventry Police
Coventry Municipal Employees
Coventry School Employees
Narragansett Police (before 7/1/78)
Pawtucket Police and Fire (after 1974)
West Warwick

Risk Category 2

Not enough money; contributions adequate
Central Falls Police and Fire (before 7/1/72)
Cranston Police and Fire (before 7/1/95)
Johnston Fire (before 7/1/99)
Johnston Police
Newport Firemen's Pension Plan
Providence

Scituate Police Pension Plan
Smithfield Police (before 7/1/99)
Warwick Police Pension I and Fire
Westerly Police

Risk Category 3

Enough money; contributions too low
Bristol Police (before 3/22/98)
East Providence Fire and Police
Narragansett Town Plan
Smithfield Fire

SOURCE: Rhode Island Auditor General

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